



Michael C. Schlachter, CFA
Managing Director

July 25, 2006

Mr. Russell Read
Chief Investment Officer
California Public Employees' Retirement System
400 P Street, Suite 3492
Sacramento, CA 95814

Re: Asset Allocation Strategy

Dear Russell,

You had requested Wilshire's opinion regarding the revised policy language developed by regarding the asset allocation strategy.

We agree with Staff that cash balances can cause a "drag" on performance during periods of positive returns in other asset classes, and we believe that clients should generally seek to minimize the impact of such cash balances wherever possible.

The language contained in the policy document recommended by Staff was crafted with the help of Wilshire. In our opinion, the new language will allow Staff to reduce the impact of cash positions in the portfolio in a cost-effective manner without significantly adding to the total leverage in the portfolio.

We recommend that the Policy Sub-Committee accept the new policy document as revised by Staff.

Sincerely,

A handwritten signature in black ink, appearing to read 'Michael Schlachter', with a long horizontal flourish extending to the right.

Michael C. Schlachter, CFA